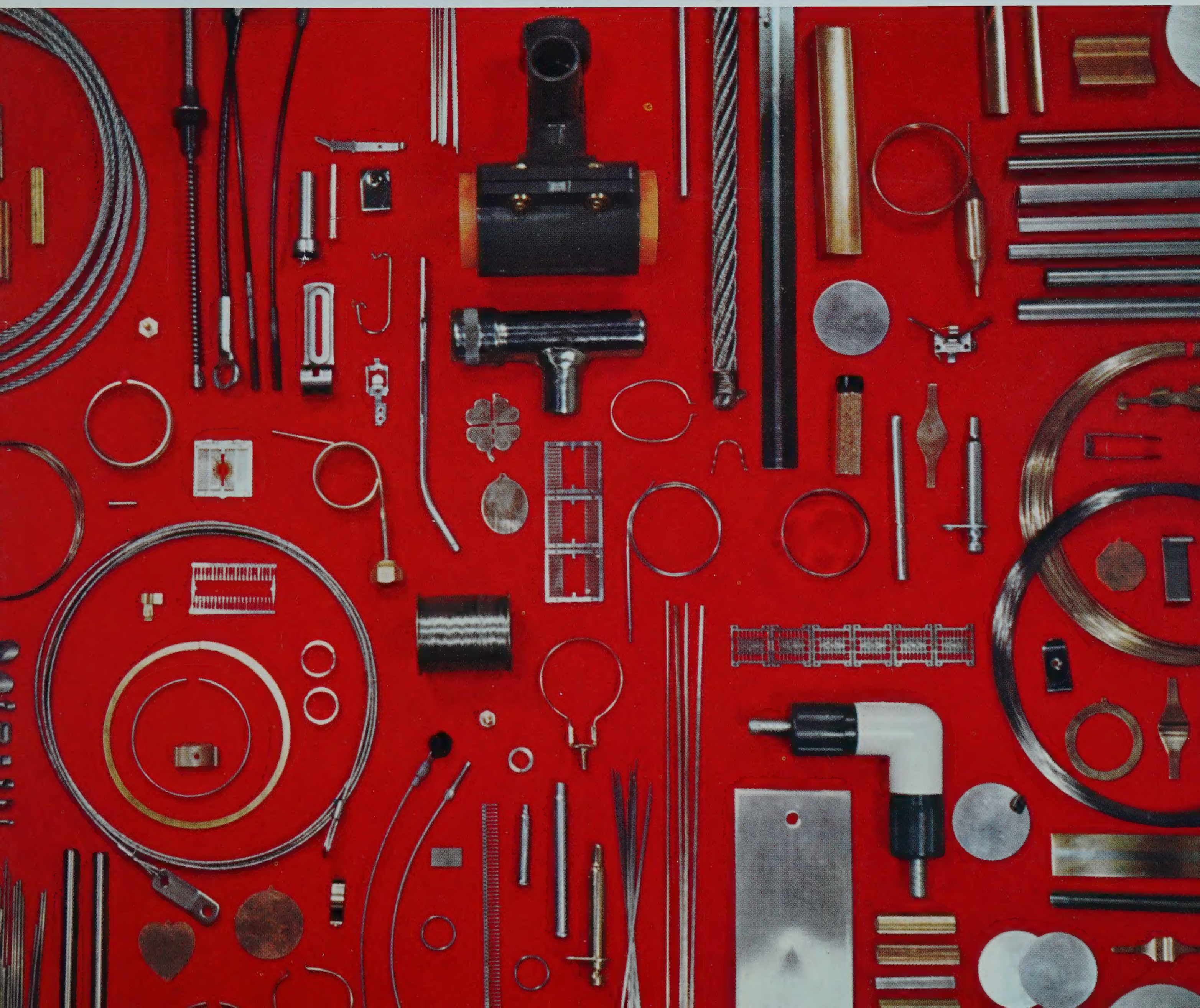
HANDY & HARMAN
1973 ANNUAL REPORT



HANDY & HARMAN 1973 ANNUAL REPORT TO SHAREHOLDERS

The Annual Meeting of the Shareholders of Handy & Harman will be held on April 23, 1974 at the Morgan Guaranty Hall, 15 Broad Street (28th floor) in New York City at 11:00 a.m.

BOARD OF DIRECTORS

THEODORE W. ATKINSON
PHILIP L. CARRET*
LEONARD C. CREWE, JR.
WILLIAM L. GREY
WILLIAM H. NEWMAN*
GOUVERNEUR M. NICHOLS
GEORGE J. PEER
PAUL L. PEYTON*
M. WILBUR TOWNSEND*
FRANCIS H. WEMPLE
EZRA K. ZILKHA*

*Member of Executive Committee

OFFICERS

M. WILBUR TOWNSEND
Chairman of the Board and President

THEODORE W. ATKINSON
Group Vice President

CHARLES D. COXE
Vice President—Research and Development

RICHARD N. DANIEL
Vice President and Controller

PHILIP G. DEUCHLER
Vice President—Marketing

LEIF C. KRONEN
Secretary and Counsel

GEORGE J. PEER
Group Vice President

FRANCIS H. WEMPLE
Vice President and Treasurer

GENERAL COUNSEL
Breed, Abbott & Morgan

AUDITORS
Hurdman and Cranstoun

TRANSFER AGENT
Morgan Guaranty Trust Company of N.Y.

REGISTRAR
The Chase Manhattan Bank (N.A.)

STOCK LISTING
New York Stock Exchange Ticker Symbol: HNH

COVER
A sampling of items manufactured by the various Handy & Harman companies, illustrating a broad diversity of finished products made from many kinds of materials. A detailed listing of products and services will be found on the inside back cover.

TO OUR SHAREHOLDERS:

■ We are pleased to report that 1973 was by far the best year, both in sales and income, in our 106 year history. Sales for 1973 amounted to $333,170,000 compared to $235,044,000 in 1972, an increase of 42%. Net income after taxes amounted to $5,391,000 compared to $2,745,000 in 1972, an increase of 96% and equivalent to $2.32 and $1.18 per share respectively.

■ Net income for 1973 is after giving effect to an extraordinary credit of $244,000, equivalent to 11¢ a share. This credit arises from a tax benefit obtained in 1973 relating to operating losses in prior years at our Greenback Industries subsidiary. Greenback's earnings in 1973 were more than enough to offset such losses. Because of its size, the amount involved is segregated as an extraordinary credit. Net income for 1972 is after giving effect to losses relating to Electric Thermometers Trinity, Inc., a 50% owned company which was liquidated that year. These losses were in part from operations and in part incurred in liquidation. They amounted to a total of $526,000, equivalent to 23¢ a share.

■ The unprecedented speculative activity in both gold and silver over the past several months has driven prices for these metals much higher than even the most extreme predictions. Naturally the investment community as well as our shareholders are very much interested in what this means to our business and to our company. So far high prices have not adversely affected the volume of our shipments over all, but a few marketing areas have shown some weakening. Specifically sales have declined for some of our karat gold products for jewelry, principally casting grain, and for sterling silver products for the tableware industry.

■ On the other hand the softening in these areas has been more than offset by increases in most other areas. In particular special comment should be made about the very rapidly expanding demand for silver medallions and other collector items. Total consumption of silver in the United States in 1973 for such purposes, termed "Commemorative and Collector Arts," was double the 1972 figure. This type of demand appears to be enhanced rather than discouraged by rising silver prices. Higher prices also mean more growth in the refining part of our precious metal business, one example of which has been the increasing availability of old silver coins.

■ High silver and gold prices affect the company's balance sheet as well as its sales. Our precious metal inventories are carried at cost on the last-in, first-out (LIFO) method of accounting. The very substantial difference between the cost and the much higher market value of these inventories is reflected in a so-called LIFO reserve which does not appear on the balance sheet but is reported in note 7 to the financial statements. This reserve amounted to $75,086,000 at year end compared to $31,144,000 at the end of 1972. It should be noted that these figures are before income taxes, which would apply in the event of inventory liquidation.

■ In this connection, we are frequently asked whether any of our LIFO reserve can be converted into profits. There is really only one way this can be done and that is through a

reduction in the level of our precious metal inventories required for operations. Such a reduction might occur for several reasons. For example, today's high silver and gold prices create an incentive for industry to seek ways to conserve precious metals, such as changing to the use of clad metal products or reducing the precious metal content of alloys. Also, we ourselves might find it appropriate to curtail or even eliminate certain product lines where the required investment might be more effectively used in other areas.

■ In addition inventory reductions may be expected to take place during periods of slack business when less inventory is required. On occasion in the past we have generated inventory profits in this way, and such profits have provided the means of financing part or even all of some major capital investment of which our Attleboro refinery is a good example. We did not realize any LIFO profits in 1973, but the potential exists for the future should inventory needs decline. When such profits are realized they are fully disclosed in our financial reports. Meanwhile our LIFO reserve provides the company with a unique financial base on which to build future growth.

■ During the past couple of years our long range acquisition program has come to fruition, and in 1973 the non-precious metal operations contributed more than one third of our profits. The program continues to be an active one, and we added two companies in 1973. In February we acquired Automated Process Systems, Inc., which designs conveyor systems and which has expanded our capabilities in marketing the stainless steel belts manufactured by our Metalsmiths Division. In May we acquired Continental Industries, Inc., which has an established position as a supplier of fitting and connecting products to the gas and water distribution industries. Continental also manufactures plastic pipe and non-ferrous thermite welding powders.

■ While continuing our efforts to grow through acquisitions, we have at the same time been increasing our emphasis on growth from within. For example, our Greenback Industries subsidiary recently developed new capabilities for magnetic ferrite powders which have very good potential for 1974 and beyond. Also, our Metalsmiths Division, in conjunction with our Automated Process Systems, Inc. subsidiary, has new long range contracts to supply very large stainless steel belts and conveyor systems to major factors in the food processing, plastics and building materials industries, and we are building a new and larger plant to accommodate this new business.

■ In the precious metal area, we obtained a contract last year from the Royal Canadian Mint to manufacture sterling silver material for the special coinage program commemorating the Olympic Games scheduled to be held in Canada in 1976. This contract continues into the spring of 1974, and in the meantime bids for further contracts are being invited. Also, the United States Mint will be asking for bids this year for a silver alloy sandwich-type material to be used to make coins commemorating our country's bicentennial in 1976, and we expect to get a share of this business.

■ Good internal controls are essential to efficient growth, particularly when business is expanding. During the past few years we have made good progress in improving management information systems and controls over operations. We have implemented new planning techniques in budgeting and have established a program for centralized cash management. The contributions to profits from cost savings and from improvements in operating efficiencies were evident in 1973 and should be even more significant in 1974.

■ The importance of good security and adequate insurance in the precious metals parts of our business becomes more and more significant as the prices of gold and silver reach higher and higher levels. We have a strong and effective security program covering all of our operations with particular emphasis in areas where high values are involved, and we had an excellent experience record in 1973. As a result we have been able to obtain improved coverage limits from our insurance carriers not only without increases in premiums but in some cases even with moderate premium reductions.

■ In another area of costs, interest on borrowed money has always been a major item in our budget, and its importance is highlighted by the fact that we report it separately in our

income statement. Lower interest rates for 1974 are already in evidence, and further declines are being predicted. Even fractional reductions in rates represent significant savings in our total interest cost.

■ All manufacturing companies are affected to some degree by the much discussed energy shortage. In our own case we have surveyed our needs and analyzed availability. We conclude that operations at our plants during 1974 will not be materially affected because of curtailment of power. However, it is too early to know the extent of the impact, if any, on all of our many thousands of customers and suppliers. Meanwhile, the cost of power has been increasing and will undoubtedly increase still further. We have been able to offset such cost increases at least in part by means of a coordinated energy conservation program which has been put into effect throughout the company.

■ We start 1974 in perhaps the strongest financial condition in our history. We have ample credit lines to more than cover projected needs, and we have already referred to the significance of our LIFO reserve. Business continues to hold up, and we are well on the way to a good first quarter. Many leading economists are predicting a year of little real growth. Assuming this proves to be the case, we nevertheless expect for the several reasons we have discussed that our earnings for 1974 should show further gains over last year's records.

M. W. Townsend

M. W. TOWNSEND
Chairman of the Board and President

March 15, 1974

FIVE YEAR SUMMARY OF STATISTICAL HIGHLIGHTS
(dollars in thousands—except per share figures)

	1973	1972	1971	1970	1969
Net Sales	**$333,170**	$235,044	$171,973	$161,229	$214,281
Income from continuing operations	**$ 5,147**	3,271	1,285	2,897*	4,857*
Net income	**$ 5,391**	2,745	1,116	2,669*	3,850*
Working capital	**$ 28,716**	28,827	27,114	18,568	21,846
Property, plant & equipment—net	**$ 24,196**	22,464	23,162	22,375	19,042
Total assets	**$127,540**	112,763	102,340	96,561	94,245
Shareholders' equity	**$ 35,050**	31,387	30,336	31,322	30,943
Average shares outstanding (nearest thousand)	**2,325**	2,322	2,334	2,359	2,356
Dividends paid	**$ 1,674**	1,672	1,678	1,707	1,497
Per share of common stock:					
Income from continuing operations	**$ 2.21**	1.41	.55	1.23*	2.06*
Net income	**$ 2.32**	1.18	.48	1.13*	1.63*
Dividends	**$ .72**	.72	.72	.72	.66
Number of shareholders	**2,600**	2,781	2,751	2,840	2,758
Number of employees	**2,625**	2,178	2,035	2,000	2,100

Amounts shown have been restated to give retroactive effect of poolings of interests transactions and adoption of equity method of accounting.

***Reduction of precious metal inventories valued under the LIFO method resulted in increases in net income in 1970 and 1969 of approximately $1,404 and $1,097 respectively, equal to $.60 and $.47 per share of common stock.**

What kind of company are we?

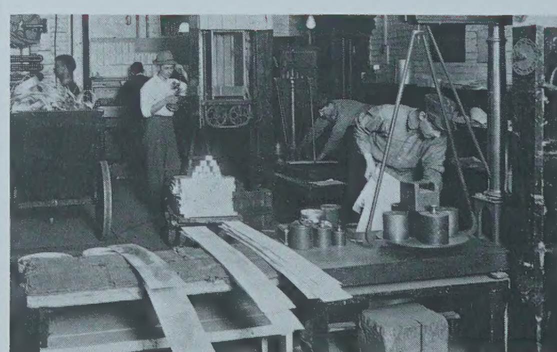
We're, first of all, a *growing* company. We've been growing for over a century now, and in recent years growing so fast—and changing so fast—that it hasn't been easy even for our own shareholders to keep up with us.

We've traveled a long road . . . from our original 3-man bullion-and-specie business of the late 1800's . . . to the Handy & Harman of today—one of the "Fortune 500," a diversified international manufacturing company whose stock is traded on the New York Stock Exchange. On this journey, two turning points, in particular, have had special significance for us . . .

The first of these turning points occurred in the early 1900's, when we first began to alloy and roll gold and silver for manufacturing jewelers and silversmiths (and to refine our own manufacturing scrap to reclaim its precious metal content). This was the beginning of our manufacturing activity—and it set the pattern for all the years ahead. Over the next sixty years we became leading processors and refiners of precious metals, with a number of large, modern plants in the U.S. and Canada.

Then, as we entered the decade of the 1960's, we made another major turning point. We launched a program of diversification, aimed at broadening our base by expansion into *non-precious metals* manufacturing operations. This program has resulted, to date, in the acquisition of some 15 subsidiary companies. It has changed us from a single large company processing precious metals into a family of specialty manufacturing companies, each of which makes a distinctive contribution to the economic life of our country . . .

By the early 1900's, the processing and refining of precious metals had become our predominant activity.



What do we do?

Exactly what do the Handy & Harman companies do? They *add value* to metals, through a wide range of fabricating processes, such as alloying, rolling, drawing, stamping, extruding, cladding and atomizing. The end result in all cases consists of materials or products finished to very close tolerances, ready for other manufacturers to use as components of *their* products.

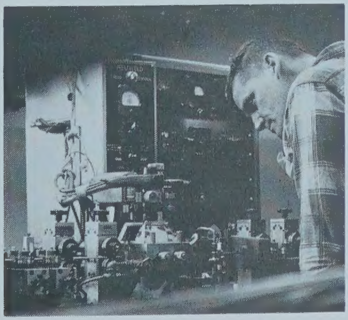
How do the various Handy & Harman companies differ from each other? Each of them creates different products, using different materials and different production techniques.

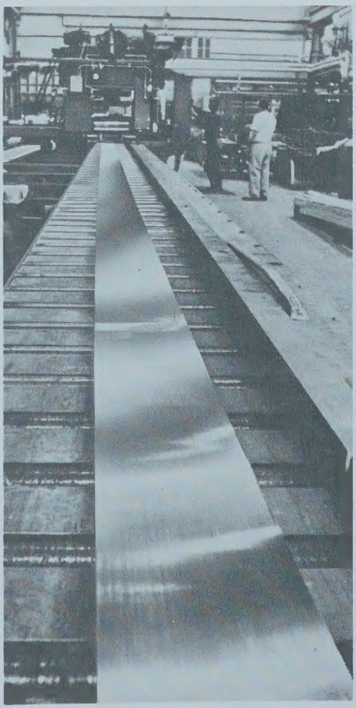
What do they all have in common? They all make products requiring a high degree of technical skill. From the precious metal alloys and clad composites made by the parent company, to the many specialty products made by the subsidiary companies, the value-added factor is a high one. Production is measured not in tons, but in pounds—and even ounces.

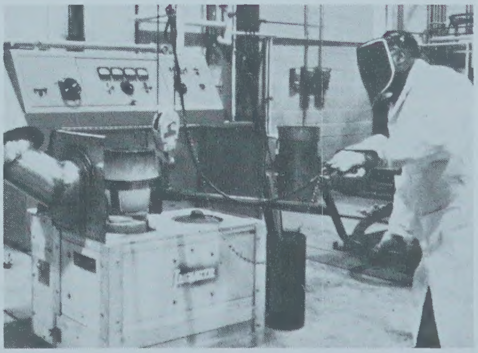
A family of companies bound together by common emphasis on quality rather then quantity takes on some special characteristics. Our employees are relatively few in number in proportion to the value of production (the average employee accounts for the unusually high figure of $100,000 in annual shipments), but they are highly skilled. And they work with especially sophisticated (and continuously improved) production and control equipment.

We have a special kind of management, too. And perhaps there's even something special about the people who own us . . .

Computer controls and sophisticated manufacturing equipment characterize our production in the 1970's.







Who owns us?

Our shareholders own us, of course, and they are rather a tight-knit family, in many ways . . .

Perhaps most significant, over 60% of the shares are owned by employees (including officers and directors) of the Company or of a subsidiary—or by their families and estates.

Shareholder loyalty is indicated by the fact that approximately 32% of the outstanding shares have been held by the same shareholders (excluding financial organizations) for the past ten years.

Annual Shareholders Meetings feature active shareholder involvement and strong support for the Company's management . . .

In the past ten years, for example, the percentage of shares represented at these meetings has averaged over 90%. The slates of directors nominated by management during this period were elected by percentages ranging from 99.6% to 100% (in 7 of the 10 years the figure was 100%). And management proposals were approved by votes ranging from 96.3% to 99.9% of the total shares represented.

We recognize—and salute—this warm shareholder participation and support. We think we can fairly say . . . there's something a little special about our shareholders, as well as our Company.

Lively interest and active participation mark our Annual Shareholders Meetings.

Who manages us?

A company of diverse manufacturing operations, stressing product quality rather than tonnage production, needs a rather special kind of management.

There is less need for routine supervision of large numbers of employees than in many other companies of comparable size (by sales). Instead, the emphasis both in parent company and subsidiaries is on management with heavy technical experience, considerable flexibility of function and a flair for innovation—in research and development, in production techniques and controls, and in the very nature of the products manufactured.

Handy & Harman's management can best be viewed as a series of teams. Overseeing all Company policy, and responding directly to the shareholders, is the Board of Directors (pictured below). The Company's Officers manage the broad areas of day-to-day operation—the precious and non-precious Groups, and the overall functions of manufacturing, research, marketing and financial administration.

Each of the individual companies is headed by an operating team, highly autonomous and responsible for the efficient and profitable management of its own company. These operating teams, pictured and described in last year's Annual Report, number in all over sixty people, with many hundreds of years of cumulative experience. They are an invaluable resource of Handy & Harman. And the strong performance of the subsidiary companies in the year 1973 is in large part a testimony to their leadership qualities.

Candid photos of Handy & Harman's Board of Directors.

M. W. Townsend, W. L. Grey, P. L. Carret

W. H. Newman, T. W. Atkinson, P. L. Peyton

L. C. Crewe, Jr., E. K. Zilkha

G. J. Peer, G. M. Nichols, F. H. Wemple

Where are we headed?

Our present structure, and the direction of our growth, are dramatized on these two pages. Each photograph shows typical products made by one of our companies. The lines radiating out from parent company to subsidiaries express the direction of growth that characterizes the Handy & Harman of the 1970's.

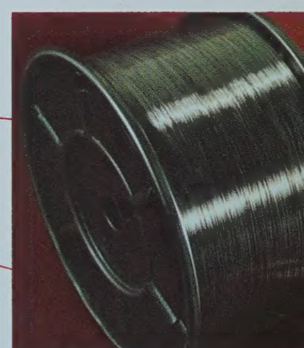
We see this growth happening in two ways. One—by continual development of new products from within each of our companies. And two—by continued acquisition of highly specialized manufacturing companies that fit into our scheme of things.

Growth is exciting. The years ahead will be exciting ones for the growing Handy & Harman family of companies.

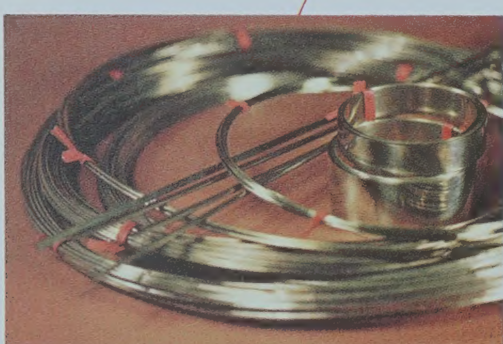
Greenback Industries makes coppe
alloy powders used in the manufactu
brake linings, printed circuits, electr

Consolidated Tube makes tubing, eyelets and ferrules used as components in appliances, electronic assemblies and thermostatic controls

Our parent company, Handy & Harman, is a leading fabricator and refiner of precious metals, whose many products include gold and silver alloys in sheet, strip, grain and wire form; contact and brazing alloys, anodes and clad metal composites.

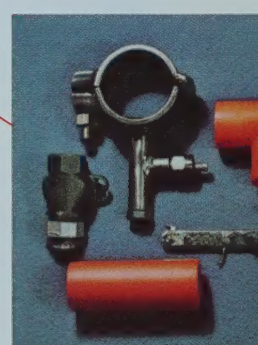


Maryland Specialty Wire make
—for cardiac pacemakers, anti
ocean cable and other corrosi



Handy & Harman of Canada, like the parent company, fabricates precious metals in all mill forms, and refines gold and silver from industrial scrap.

Bigelow Components cold-forms tiny components —from pin-head size to one inch—for use in close-tolerance mechanical and electrical assemblies.



Continental Industries ma
graphite molds and therm
gas and electric utilities a

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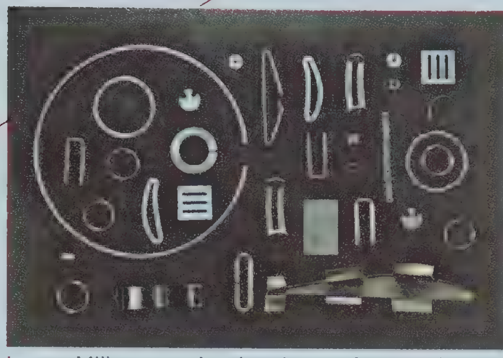
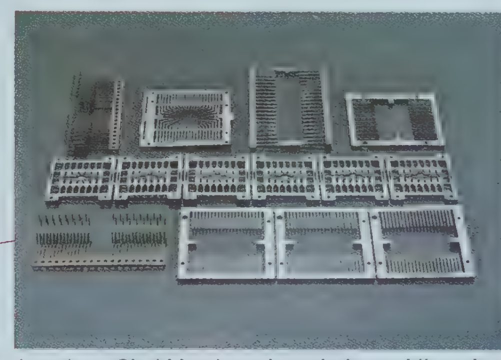


Lucas-Milhaupt makes brazing preforms in innumerable shapes—for production metal joining in refrigeration, automotive and consumer durables.

Wire-Form makes intricate stampings and formed springs, including such items as eyeglass frames, drapery hardware, carburetor parts, jewelry.

Rathbone Corporation makes cold-drawn, distinctively-profiled metal rods, which are "sliced" by users into completely formed gears, pivots, cams.

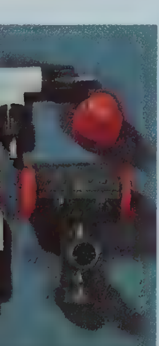


American Clad Metals makes clad metal "sandwiches"—complex combinations of precious and non-precious metals—for electronic uses.

ss steel wire
n filters,
ant uses.

Handy & Harman Tube makes small-diameter tubing for instrument components—in aerospace, medicine, electronics and communications.

Pennsylvania Wire Rope makes wire cable in reels, lengths and assemblies—for many automotive, leisure product and construction applications.



s, plastic pipe,
g powders for
mbing industry.

Automated Process Systems designs and builds automated conveyor systems for such processing industries as food, plastics, beverage and tobacco.

Handy & Harman Metalsmiths makes mirror-finish stainless steel products—conveyor belts, utensils, etc.—used in many processing industries.

FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

HURDMAN AND CRANSTOUN,
Certified Public Accountants

140 Broadway
New York, N.Y. 10005

To the Directors and Shareholders of Handy & Harman

We have examined the consolidated balance sheet of Handy & Harman and subsidiaries as of December 31, 1973 and 1972 and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of Handy & Harman and subsidiaries consolidated at December 31, 1973 and 1972 and the consolidated results of their operations and changes in their shareholders' equity and financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Hurdman and Cranstoun
Certified Public Accountants

New York, New York
February 25, 1974

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 1973	1972
Sales of products and service revenues	**$333,170,000**	$235,044,000
Cost of products and services	**300,138,000**	212,404,000
Gross profit	**33,032,000**	22,640,000
Selling, general, and administrative expense	**14,124,000**	10,847,000
Provision for doubtful accounts	**1,312,000**	478,000
	15,436,000	11,325,000
	17,596,000	11,315,000
Other deductions (income):		
Interest on loans	**6,190,000**	4,073,000
Provision for writedown of assets		342,000
Other (net)	**(47,000)**	(61,000)
	6,143,000	4,354,000
	11,453,000	6,961,000
Provision for taxes on income (Note 3)	**6,306,000**	3,690,000
Income from continuing operations	**5,147,000**	3,271,000
Equity in loss of liquidated 50% owned company		194,000
Income before extraordinary items	**5,147,000**	3,077,000
Extraordinary credit (charge) (Note 6)	**244,000**	(332,000)
Net income	**$ 5,391,000**	$ 2,745,000
Per share of common stock:		
Income from continuing operations	**$2.21**	$1.41
Equity in loss of liquidated 50% owned company		(.09)
Extraordinary items	**.11**	(.14)
Net income	**$2.32**	$1.18

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1973	December 31, 1972
Current assets:		
Cash (Note 2)	**$ 13,621,000**	$ 7,102,000
Accounts receivable (less allowance for doubtful: 1973, $1,327,000; 1972, $633,000)	**34,952,000**	36,931,000
Inventories—at cost (Note 7)	**50,646,000**	43,806,000
Deferred income tax benefit	**1,023,000**	670,000
Prepaid expenses and deposits	**479,000**	554,000
Total current assets	**100,721,000**	89,063,000
Investments in 45%—50% owned companies at equity	**552,000**	562,000
Property, plant, and equipment—at cost (Note 7)	**43,395,000**	39,624,000
Less accumulated depreciation and amortization	**19,199,000**	17,160,000
	24,196,000	22,464,000
Intangibles (principally patents), net of amortization	**1,495,000**	
Deferred charges	**270,000**	345,000
Other assets	**306,000**	329,000
	$127,540,000	$112,763,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1973	December 31, 1972
Current liabilities:		
Notes payable (Note 2)	**$ 51,415,000**	$ 46,928,000
Current maturities of long-term liabilities (Note 7)	**817,000**	130,000
Accounts payable	**12,700,000**	6,960,000
Accrued liabilities:		
Payroll, smelters' charges, and other expenses	**3,361,000**	2,142,000
United States and Canadian taxes on income (Note 3)	**2,676,000**	3,293,000
Other taxes	**1,036,000**	783,000
Total current liabilities	**72,005,000**	60,236,000
Long-term liabilities, less current maturities (Note 7)	**20,344,000**	20,865,000
Deferred income taxes	**141,000**	275,000
Commitments and contingent liabilities (Note 4)		
Shareholders' equity:		
Common stock—6,000,000 shares of par value $1 authorized; issued: 1973, 2,400,729 shares; 1972, 2,395,729 shares (Note 5)	**2,401,000**	2,396,000
Capital surplus	**5,068,000**	4,979,000
Retained earnings (Note 2)	**29,307,000**	25,590,000
	36,776,000	32,965,000
Deduct treasury stock: 1973, 82,508 shares; 1972, 74,108 shares—at cost	**1,726,000**	1,578,000
Total shareholders' equity	**35,050,000**	31,387,000
	$127,540,000	$112,763,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years Ended December 31, 1972 and 1973

	Par Value $1 Common Stock	Capital Surplus	Retained Earnings	Treasury Stock		Total Shareholders' Equity
				Shares	Cost	
Balance, January 1, 1972	$2,396,000	$4,979,000	$24,517,000	72,808	($1,556,000)	$30,336,000
Net income			2,745,000			2,745,000
Cash dividends on common stock—$.72 per share			(1,672,000)			(1,672,000)
Common stock purchased for treasury				1,300	(22,000)	(22,000)
Balance, December 31, 1972	2,396,000	4,979,000	25,590,000	74,108	(1,578,000)	31,387,000
Net income			5,391,000			5,391,000
Cash dividends on common stock—$.72 per share			(1,674,000)			(1,674,000)
Common stock issued in business combination	5,000	89,000				94,000
Common stock purchased for treasury				8,400	(148,000)	(148,000)
Balance, December 31, 1973	$2,401,000	$5,068,000	$29,307,000	82,508	($1,726,000)	$35,050,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31, 1973	1972
Working capital, January 1	**$28,827,000**	$27,114,000
Sources:		
Operations:		
Income before extraordinary items	**5,147,000**	3,077,000
Items entering into determination of the above which did not use (provide) working capital:		
Depreciation and amortization	**2,365,000**	2,332,000
Provision for writedown of assets		342,000
Equity in loss of nonsubsidiary companies	**10,000**	204,000
Other	**31,000**	(9,000)
Working capital provided from operations exclusive of extraordinary items	**7,553,000**	5,946,000
Extraordinary credit (charge)	**244,000**	(332,000)
Extraordinary items which did not use working capital:		
Loss on liquidation of nonsubsidiary company		93,000
Working capital provided from operations	**7,797,000**	5,707,000
Disposal of property, plant, and equipment	**72,000**	56,000
Additions to long-term liabilities	**161,000**	
Common stock issued in business combination	**94,000**	
Other	**23,000**	56,000
	8,147,000	5,819,000
Uses:		
Reduction of long-term liabilities	**847,000**	132,000
Cash dividends paid	**1,674,000**	1,672,000
Property, plant and equipment acquired:		
Through business combinations	**1,456,000**	
Through other cash additions	**2,527,000**	1,713,000
Purchase of treasury stock	**148,000**	22,000
Intangibles acquired through business combinations	**1,606,000**	
Investments		559,000
Other		8,000
	8,258,000	4,106,000
Increase (decrease) in working capital	**(111,000)**	1,713,000
Working capital, December 31	**$28,716,000**	$28,827,000
Increase (decrease) in components of working capital:		
Cash	**$ 6,519,000**	$ 302,000
Receivables	**(1,979,000)**	14,099,000
Inventories	**6,840,000**	(3,533,000)
Deferred tax benefit	**353,000**	362,000
Prepaid expenses and deposits	**(75,000)**	(5,000)
Increase in current assets	**11,658,000**	11,225,000
Notes payable and current maturities of long-term liabilities	**5,174,000**	4,320,000
Accounts payable	**5,740,000**	1,939,000
Accrued liabilities	**855,000**	3,253,000
Increase in current liabilities	**11,769,000**	9,512,000
Increase (decrease) in working capital	**($ 111,000)**	$ 1,713,000

The accompanying summary of significant accounting policies and notes are an integral part of the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a—Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of the Canadian subsidiary are translated at appropriate rates of exchange (current items at year-end rates, noncurrent at historical rates, and income and expense items at average rates). Translation gains are not material. All significant intercompany items have been eliminated.

Investments in 20%—50% owned companies are carried at equity in their net assets.

b—Inventories

Precious metal inventories are valued principally at cost as computed under the last-in, first-out (LIFO) method, which is lower than market. Other precious metals are stated at replacement value. Nonprecious metal inventories are stated at the lower of cost (principally average) or market.

c—Property, plant, and equipment, and depreciation

Property, plant, and equipment are stated at cost. Depreciation and amortization are provided principally on the straight-line method for both financial reporting and tax purposes. Certain of the subsidiaries compute depreciation under accelerated methods. Generally, buildings are depreciated over 50 years and machinery and equipment over 14 years.

d—Research and development

Research and development costs are charged to operations as incurred. Purchased computer systems and programming costs are generally capitalized and amortized over periods not to exceed five years.

e—Intangibles and amortization

Patents are stated at cost as determined by independent appraisers in conjunction with the acquisition (accounted for as a purchase) of Continental Industries, Inc. ("Continental"). Straight-line amortization is being provided over the remaining lives of the respective patents.

The excess of purchase price over the net assets acquired of Automated Process Systems, Inc ("APS") is being amortized on the straight-line method over ten years.

f—Revenue recognition

Service revenues, which represent charges to customers for processing refining lots, are recognized in income when the lots are settled with the customer as to precious metal content. Additional costs and smelter charges relating to the settled lots are accrued at that time.

g—Retirement plans

The Company and certain of its subsidiaries have noncontributory retirement plans for the benefit of eligible employees. Pension costs are calculated by the Company's consulting actuary to include amortization of prior service cost, generally over a period of 30 years from the inception of the respective plan. The Company's policy is to fund pension costs accrued. The assets of the respective funds exceed the present value of vested benefits, except in the case of newly adopted plans of certain subsidiaries for which the deficiency is not considered material.

h—Taxes on income

The Company files a consolidated Federal income tax return with all its domestic wholly owned subsidiaries. Investment credit is recorded as a reduction of the provision for income taxes under the flow-through method.

The tax effect of timing differences in reporting certain transactions for financial statement purposes (principally provisions for doubtful accounts) that are recognized in tax returns of other periods are appropriately accounted for as deferred taxes. Net operating tax loss carryforwards are recognized when their utilization is assured.

The Company's policy is to reinvest undistributed earnings of its Canadian subsidiary in working capital requirements of that company. Therefore, in accordance with Opinion Number 23 of the Accounting Principles Board, there is no recognition of domestic income tax expense on such undistributed earnings in the accompanying financial statements. Undistributed earnings of 50% or less owned companies, carried on the equity method, are presently not material.

i—Income per share

Per share amounts are based on the weighted average number of shares outstanding during the years, adjusted retroactively, when applicable, for shares issued in a pooling of interests transaction. Outstanding stock options are considered common stock equivalents using the treasury stock method and are included in the calculation when their effect would be dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—1973 AND 1972

1—Recent acquisitions

In February 1973 the Company acquired, in exchange for 5,000 shares of its common stock, all the stock of APS. Additionally, in May of 1973 the Company acquired, for $2,900,000 and the assumption of liabilities, the business and assets of Continental. Both acquisitions have been accounted for as purchases and, accordingly, the accompanying financial statements include the results of operations of the acquired companies only since date of acquisition. Revenues and net income of the acquired companies prior to acquisition are not material.

2—Cash and notes payable

The Company has lines of credit totaling $73,900,000 with 13 commercial banks at December 31, 1973. Additionally, short-term financing is supported by periodic sales of commercial paper ($1,100,000 outstanding at December 31, 1973) and a $10,000,000 revolving credit and term loan agreement with two commercial banks.

Under the lines of credit, monies are advanced for periods generally of 90 days at the then prevailing prime interest rates. The unused lines of credit at December 31, 1973 totaled $23,930,000.

At December 31, 1973, the average interest rate for outstanding short-term borrowings was 9.8%. During 1973, the average month-end short-term borrowing was $55,600,000; the weighted average interest rate was 8.5%, computed on the basis of the number of days the borrowings were outstanding; and the maximum month-end short-term borrowing was $71,610,000.

The Company periodically adjusts its lines of credit to reflect borrowing needs which are primarily related to the market value of its precious metal products and the resulting changes in accounts receivable as precious metals are sold. In connection with the lines, the Company maintains average compensating balances equal to 15% of the total line. The balances are not legally restricted as to withdrawal and serve as part of the Company's minimum operating cash balances. The average compensating balances related to the lines outstanding at December 31, 1973 totaled approximately $11,935,000. This amount, expressed in terms of book cash balances, was approximately $1,000,000 more than the amounts reflected by the banks. The difference is attributable to float and uncollected funds.

The revolving credit portion of the revolving credit and term loan agreement expires on December 1, 1975, with the then outstanding amount convertible into three-year term loans repayable in instalments to December 1, 1978. The loans bear interest at a rate which approximates 120% of the prime rate as in effect from time to time. In addition, a fee of ½ of 1% of the unused commitment is payable during the revolving credit period. At December 31, 1973, there were no outstanding borrowings under the agreement.

The revolving credit and term loan agreement contains certain restrictions on the declaration of cash dividends and the acquisition of capital stock of the Company. At December 31, 1973, the amount of consolidated retained earnings unrestricted for such purposes was $2,573,000. On a consolidated basis, the agreement also limits total liabilities to an amount ($127,953,000 at December 31, 1973) determined by formula, and requires the Company to maintain minimum working capital of $23,000,000 and minimum tangible net worth of $30,000,000. At December 31, 1973, the consolidated totals were: liabilities $92,349,000, working capital $28,716,000, and tangible net worth $33,042,000.

3—Taxes on income

The provision for taxes on income comprised the following (in thousands):

	1973		
	Currently Payable	Deferred	Total
State and local	$ 939	($ 68)	$ 871
Canadian	614	(10)	604
Federal	5,240	(409)	4,831
	$6,793	($487)	$6,306
Investment credit			$ 98

	1972		
	Currently Payable	Deferred	Total
State and local	$ 592	($ 40)	$ 552
Canadian	411		411
Federal	3,115	(388)	2,727
	$4,118	($428)	$3,690
Investment credit			$ 116

Provisions of Canadian tax law require precious metal inventories to be valued at the lower of year-end market or average market price for the year, which amount is in excess of stated value, in the accompanying financial statements, as computed under the LIFO method. This resulted in an increase of the Canadian provision for taxes as follows: 1973, $318,000; 1972, $137,000 ($.13 and $.06 per share, respectively).

The Company has a realized capital loss carryforward of $1,215,000, which expires in 1977, resulting from the liquidation of Electric Thermometers Trinity, Inc. (Note 6).

4—Commitments and contingent liabilities

On June 15, 1970 a suit was commenced in the Superior Court of Fairfield County, Connecticut against the Company and five other corporations and several Con-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—1973 AND 1972

necticut cities and towns by the Connecticut Conservation Association, Inc and three individuals identified as oystermen or fishermen. The complaint alleges that the defendants are polluting the waters of Long Island Sound and some of its tributaries. The plaintiffs seek a permanent injunction against further destruction of the marshlands and wetlands of the State of Connecticut and against further pollution of the waters and seek damages in the sum of $150,000,000. The case is currently pending, with no trial date set as yet. The Company believes that the action will not materially affect or interfere with its operations, and special counsel is of the opinion that the Company should be able to successfully defend the claims involved.

The Company is contingently liable for the issuance of an additional 5,000 shares of common stock reserved in connection with the APS acquisition.

Commitments at December 31, 1973 for additional plant and equipment approximated $400,000.

Lease and rental commitments are not significant.

5—Stock options

At December 31, 1973, 74,108 shares of common stock held in the treasury were reserved for issuance under the Company's 1972 Stock Option Plan, and 48,500 shares of unissued common stock were reserved for issuance under the 1965 Plan. Transactions under the Plans are summarized below:

	Shares Available for Option	Shares Under Option: Shares	Shares Under Option: Range of Prices
Balance, January 1, 1972	—	48,500	$19.68-$31.63
Options expired 1972	3,500	(3,500)	$25.50
Adoption of 1972 Stock Option Plan	100,000		
Options granted	(15,000)	15,000	$18.00
Balance, December 31, 1972	88,500	60,000	$18.00-$31.63
Options granted	(13,000)	13,000	$18.31
Balance, December 31, 1973	75,500	73,000	$18.00-$31.63

Of the shares under option, 43,400 were exercisable at December 31, 1973 and the balance will become exercisable during the years 1974 to 1982.

6—Extraordinary items

The extraordinary credit in 1973 results from the utilization of an operating loss carryforward of a subsidiary.

The extraordinary charge in 1972 represents the Company's equity in the loss sustained on liquidation of Electric Thermometers Trinity, Inc, a 50% owned company, plus payment of a portion of ETT's indebtedness to a bank which had been guaranteed by the Company, less related tax benefits in the amount of $26,000.

7—Supplemental information

	1973	1972
a—Inventories		
Precious metals:		
Fine and fabricated metals in various stages of completion	$38,628,000	$35,118,000
Nonprecious metals:		
Base metals, factory supplies, and raw materials	6,579,000	4,975,000
Finished goods	1,751,000	1,515,000
Work in process	3,688,000	2,198,000
	$50,646,000	$43,806,000
Precious metals stated at LIFO cost	$38,235,000	$34,838,000
LIFO inventory—excess of year-end market value over stated value	$75,086,000	$31,144,000
December 31 market value per ounce:		
Silver	$ 3.260	$ 2.042
Gold	$112.30	$65.20
Market value of precious metals held for customers	$16,910,000	$12,337,000
b—Property, plant, and equipment:		
Land	$ 1,220,000	$ 1,031,000
Buildings and improvements	12,973,000	12,313,000
Machinery and equipment	26,139,000	23,874,000
Furniture and fixtures	1,210,000	1,121,000
Automotive	433,000	441,000
Improvements to leased property	530,000	445,000
Construction in progress	890,000	399,000
	$43,395,000	$39,624,000
Depreciation and amortization charged to operations	$ 2,179,000	$ 2,160,000
c—Long-term liabilities:		
5%-6½% mortgages and chattel mortgages, payable principally by subsidiaries at various maturity dates to 1986	$ 462,000	$ 535,000
5⅝% note, payable by a subsidiary in annual instalments of $40,000 to 1979	240,000	280,000
6½% debentures due 1979, payable by a subsidiary	160,000	160,000
7⅜% note, payable in annual instalments of $667,000 from 1974 to 1988	10,000,000	10,000,000
9% note, payable in annual instalments of $667,000 from 1977 to 1991	10,000,000	10,000,000
Other liabilities	299,000	20,000
	21,161,000	20,995,000
Less instalments due within one year	817,000	130,000
	$20,344,000	$20,865,000
d—Pension information:		
Cost charged to operations	$ 1,179,000	$ 929,000
Unfunded prior service cost	$ 2,368,000	$ 1,933,000
e—Undistributed earnings of Canadian subsidiary	$ 1,175,000	$ 1,123,000
f—Shares of Handy & Harman common stock held in escrow to secure warranties of former shareholders of acquired companies	5,000	6,000

HANDY & HARMAN

Executive and General Offices
850 Third Avenue, New York, N.Y. 10022

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SUBSIDIARIES/DIVISIONS

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Pawtucket, R.I.

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Bensenville, Ill.

Bigelow Components Corporation
Springfield, N.J.

Carolina Tube Company, Inc.
Salisbury, N.C.

Consolidated Tube Fabricating Corp.
Waterbury, Conn.

Continental Industries, Inc.
Tulsa, Okla.

Greenback Industries, Inc.
Greenback, Tenn.

Handy & Harman Metalsmiths Division
Orange, N.J.

Handy & Harman Tube Co., Inc.
Norristown, Pa.

Hi-Alloys Division of Maryland Specialty Wire, Inc., Cockeysville, Md.

Lucas-Milhaupt, Inc.
Cudahy, Wisc.

Maryland Specialty Wire, Inc.
Cockeysville, Md.

Pennsylvania Wire Rope Corporation
Williamsport, Pa., and Martinsburg, W. Va.

Rathbone Corporation
Palmer, Mass.

Wire-Form, Inc.
Milldale, Conn.

In Canada

Handy & Harman of Canada, Ltd.
Toronto, Ont., and Montreal, Que.

In England

Rigby-Maryland (Stainless) Ltd.
Heckmondwike, Yorkshire
(Owned jointly with Richard Johnson & Nephew, Ltd.)

In Japan

Japan Handy Harman, Ltd.
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(Owned jointly with Mizuno Precious Metals, Ltd. and Ataka and Company, Ltd.)

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